

Message Text

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ACTION EUR-12

INFO OCT-01 ISO-00 SOE-02 NSC-05 AID-05 CEA-01 CIAE-00
COME-00 EB-08 EA-10 FRB-03 INR-07 IO-13 NEA-10
NSAE-00 USIA-06 OPIC-03 SP-02 TRSE-00 LAB-04
SIL-01 AGRE-00 OMB-01 SS-15 OES-07 STR-07 DODE-00
H-01 INT-05 L-03 PM-05 ACDA-12 /149 W
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R 311914Z JAN 78
FM AMEMBASSY BRUSSELS
TO SECSTATE WASHDC 4585
INFO ALL EC CAPITALS
DOE WASHDC

C O N F I D E N T I A L SECTION 01 OF 02 BRUSSELS 01914

USEEC

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C O R R E C T E D C O P Y FOR PARA TEN PARA TWO ADDED

E.O. 11652: GDS
TAGS: ENRG, EEC
SUBJECT: COMMISSION THINKING ABOUT ENERGY PROBLEMS

REF: (A) 77 BRUSSELS 15084, (B) BRUSSELS 860

1. SUMMARY: EC COMMISSIONER BRUNNER HAS INFORMED ME OF TWO NEW COMMISSION PROPOSALS IN THE ENERGY AREA. THE FIRST PROPOSES A DIRECT SUBSIDY ON EC PRODUCED COAL IN ORDER TO ENCOURAGE CONVERSION OF THERMAL POWER GENERATING PLANTS FROM OIL TO COAL. THE COMMISSION HAS ALSO FORMULATED A NEW PROGRAM TO HELP RESOLVE THE DIFFICULTIES FACING THE EC'S PETROLEUM REFINING INDUSTRY BY: ALLOCATING REFINERY THROUGHPUT ON AN EQUITABLE BASIS WITH THE
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VOLUNTARY PARTICIPATION OF THE OIL INDUSTRY: DISCOURAGING ESTABLISHMENT OF NEW REFINERIES; AND ASSISTING THE COMPANIES TO CLOSE EXCESS REFINERY CAPACITY. THERE IS NO ASSURANCE THAT THESE NEW MEASURES WILL BE ANY MORE ACCEPTABLE TO THE MEMBER STATES THAN PREVIOUS PROPOSALS IN THE SAME GENERAL AREA. WASHINGTON'S REACTIONS TO THESE PROPOSALS WOULD BE APPRECIATED. END SUMMARY.

2. COMMISSIONER BRUNNER TELLS ME HE IS CONSIDERING NEW COMMISSION INITIATIVES IN THE ENERGY AREA WHICH HE HOPES COULD LEAD TO DECISIONS AT THE BONN EUROPEAN COUNCIL (HEADS OF GOVERNMENT) SCHEDULED FOR JULY 5 AND 6. IF SO, BRUNNER BELIEVES THEY COULD SOMEHOW BE RELATED TO AN ENERGY SUBJECT TO BE CONSIDERED AT THE BONN ECONOMIC SUMMIT MEETING SHORTLY THEREAFTER. I TOLD HIM I THOUGHT WASHINGTON WOULD WELCOME A SOLIDLY PREPARED ENERGY ITEM ON THE SUMMIT AGENDA, SUGGESTED IT MIGHT BE GEARED TO INVESTMENT STIMULUS, BUT REFRAINED FROM COMMENTING AT THIS STAGE ON HIS IDEAS NEITHER OF WHICH APPEAL MUCH TO ME. MOREOVER, IF THE PAST IS PRELUDE, THERE IS UNLIKELY TO BE A SUFFICIENT CONSENSUS IN THE COMMUNITY FOR THEIR ADOPTION OR IMPLEMENTATION.

3. BRUNNER TALKS OF RESHAPING THE COAL SUBSIDY SCHEME. THE COMMISSION HAS PREPARED A PROPOSAL PROVIDING FOR A \$10/TON SUBSIDY FOR ALL COAL PRODUCED IN THE COMMUNITY AND EXPORTED TO ANOTHER EC STATE FOR USE IN ELECTRIC POWER STATIONS. THE COST FOR THE THREE-YEAR PROGRAM IS ESTIMATED AT ABOUT \$100 MILLION PER YEAR. BRUNNER SAID IT WOULD RESULT IN A CONSIDERABLE SAVING OF OIL AND THAT DISPLACEMENT OF COAL IMPORTS WOULD BE AVOIDED. HE DID NOT SAY HOW, BUT PRESUMABLY HE HOPES THE LONG-PENDING MEASURE TO PROVIDE FINANCIAL AIDS FOR CONVERSION OF

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THERMAL ELECTRIC POWER STATIONS FROM OIL TO COAL FROM ALL SOURCES WILL ALSO BE APPROVED THEREBY MAINTAINING THE LEVEL OF EC COAL IMPORTS WHILE AT THE SAME TIME ENCOURAGING GREATER OUTPUT OF COMMUNITY COAL.

4. CONCERNING OIL, BRUNNER WHO IN PAST CONVERSATIONS HAS ARGUED THAT THE MARKET SHOULD BE LEFT ALONE TO DO ITS JOB, IS NOW MAKING DIRIGISTE NOISES. HE ASSERTS THE MARKET MECHANISM HAS BROKEN DOWN IN THE PRESENT CIRCUMSTANCES OF LARGE EXCESS REFINERY CAPACITY. HE PROPOSES THAT THE COMMISSION USE ITS EXISTING AUTHORITY TO DISCOURAGE CONSTRUCTION OF NEW REFINERIES IN THE MEMBER STATES AND WORK CLOSELY WITH THE PETROLEUM COMPANIES TO ENCOURAGE THEM TO CLOSE DOWN REMAINING EXCESS CAPACITY. TO THIS END, HE PROPOSES EXTENDING SOME FINANCIAL ASSISTANCE FOR ADJUSTMENT AND PERMITTING COMPANIES TO CONSULT ON RATIONALIZING THE INDUSTRY THROUGH PLANT CLOSURES AND EXCHANGE AGREEMENTS. THE HEART OF THE PROPOSAL IS THE ANNUAL DETERMINATION BY THE COMMISSION, WITH THE VOLUNTARY COOPERATION OF THE INDUSTRY, OF THE OPTIMUM REFINERY THROUGHPUT FOR EACH COMPANY. ALTHOUGH BRUNNER WOULD LIKE TO ESTABLISH AN OIL INDUSTRY COM-

MITTEE FOR THIS PURPOSE SIMILAR TO WHAT EXISTS FOR COAL UNDER THE ECSC TREATY, SOME OF THE COMMISSION STAFF BELIEVE THIS IS NOT FEASIBLE AND WOULD PROBABLY CAUSE PROBLEMS UNDER COMMUNITY COMPETITION LEGISLATION.

5. I BELIEVE THAT IMPLEMENTATION OF EITHER OF THESE PROPOSED PROGRAMS IS VERY PROBLEMATICAL. MEMBER STATES

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INFO OCT-01 ISO-00 SOE-02 NSC-05 AID-05 CEA-01 CIAE-00
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HAVE NOT BEEN ABLE TO AGREE ON FINANCIAL AIDS TO ENCOURAGE CONVERSION OF THERMAL POWER STATIONS FROM OIL TO COAL BECAUSE OF CONFLICT OVER THE EXTENT THAT SUCH MEASURES SHOULD SUPPORT EC COAL PRODUCERS RATHER THAN SIMPLY REDUCE DEPENDENCY ON OIL; THE NEW PROPOSAL IS NOT LIKELY TO BE ANY MORE ACCEPTABLE TO THE NON-COAL PRODUCING STATES. I IMAGINE THE UK AND PROBABLY IRELAND, WHO HAVE VIGOROUSLY OPPOSED PAST EFFORTS TO RESTRICT THEIR FREEDOM TO BUILD NEW OIL REFINERIES (REF A), WILL TRY TO PREVENT IMPLEMENTATION OF THE OIL REFINING PROPOSAL. BRUNNER IS CLEARLY RESPONDING TO PRESSURES FROM THE FIVE SMALLER SO-CALLED EUROPEAN OIL COMPANIES (REF B). IT IS DOUBTFUL, HOWEVER, THAT THE DEGREE OF OIL MARKET REGIMENTATION HE IS PROPOSING WOULD BE ACCEPTABLE TO MOST OTHER COMPANIES, INCLUDING AMERICAN COMPANIES,

TWO OF WHOM HAVE ALREADY INFORMED US THEY OPPOSE THE
PLAN AND WILL NOT COOPERATE VOLUNTARILY.
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6. ALTHOUGH APPROVAL APPEARS UNLIKELY, THE DEPARTMENT'S
REACTIONS TO BRUNNER'S TWO PROPOSALS AND HIS SUGGESTION
THAT THEY MIGHT BE SUITABLE FOR CONSIDERATION AT THE BONN.
ECONOMIC SUMMIT WOULD BE APPRECIATED. FOR EXAMPLE, IT
WOULD BE USEFUL TO KNOW WHETHER WE ARE MORE INTERESTED
IN ENCOURAGING THE EC TO INCREASE ITS COAL PRODUCTION
TO REDUCE ITS DEMAND FOR IMPORTED OIL THAN WE ARE IN
MAINTAINING AND POSSIBLY INCREASING OUR STEAM COAL
EXPORTS TO THE COMMUNITY.

7. I WOULD ONLY ADD THAT AMBASSADOR RIBERHOLDT HAS
AGAIN TOLD ME THAT THE DANES INTEND TO PUSH HARD ON
ENERGY DURING THEIR PRESIDENCY, DESPITE A GENERAL
PESSIMISM AMONG MANY PERMDEL OFFICIALS AS TO THE
POSSIBILITY OF AGREEMENT AT THIS TIME ON SIGNIFICANT
COMMON ENERGY MEASURES. I THINK, BUT AM NOT CERTAIN,
THAT RIBERHOLDT'S IDEAS RUN IN DIFFERENT DIRECTIONS
FROM BRUNNER'S. IN ANY CASE, POSSIBLE GUIDANCE FROM
THE DEPARTMENT REGARDING THESE COMMISSION PROPOSALS
WOULD ALSO BE USEFUL IN FURTHER CONVERSATIONS WITH HIM.
ALSO HELPFUL WOULD BE US IDEAS AS TO OTHER DIRECTIONS
IN WHICH WE MIGHT ENCOURAGE THE COMMUNITY TO MOVE.
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